Canadian technology *international focus*

SCIMITAR HYDROCARBONS CORPORATION

Scimitar Hydrocarbons Corporation, a Canadian based company, is a full cycle oil and natural gas company engaged in exploration, development and production. Having an International focus, our strategy is to enhance value in areas where discovered reserves already exist by applying Canadian development technology to fully exploit the dormant reserves, supplemented with low risk exploration. Presently, Scimitar is active in Egypt and Pakistan. The 100% operated Issaran Project in Egypt, producing since 1999, is a heavy oil development opportunity that has demonstrated economic production growth from development drilling, thermal injection and workovers. In Pakistan, Scimitar recently acquired an 80% interest in the Safed Koh Block which has existing shut in natural gas/ condensate wells. Operating since 1995, Scimitar's common shares trade on the TSX Venture Exchange (CDNX) under the symbol SIY.

ABBREVIATIONS

BOPD	Barrels of Oil Per Day
DROs	Discovered Reserve Opportunities
MMBBLS	Millions of Barrels
SHC	Scimitar Hydrocarbons Corporation
SPEL	Scimitar Production Egypt Limited
US$	United States Dollars
PSA	Petroleum Service Agreement

All financial information is presented in Canadian funds unless otherwise noted.

The Special and Annual meeting of Scimitar Hydrocarbons Corporation will be held on Friday, June 28, 2002 at 10:00 o'clock in the morning (Calgary time) in the Barclay Room of the Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta. All shareholders are encouraged to attend.

2001 HIGHLIGHTS

Year Ended December 31

	Year Ended December 31 2001	2000	% Change
FINANCIAL:			
($ thousands, except per share amounts)			
Gross Revenue	$ 9,475	$ 12,226	-23%
Cash Flow	$ 2,233	$ 4,468	-50%
Per Share	$ 0.05	$ 0.11	-55%
Net Income	$ 450	$ 1,576	-71%
Per Share	$ 0.01	$ 0.04	-75%
Capital Expenditures, net	$ 5,529	$ 5,108	8%
Cash	$ 223	$ 819	-73%
Working Capital (Deficiency)	$ (1,244)	$ 884	-241%
Total Assets	$ 12,913	$ 9,495	36%
Shareholders' Equity	$ 10,350	$ 8,514	22%
Common Shares Outstanding (000's):			
Basic	44,165	39,965	11%
Weighted Average	41,823	39,633	6%
Net Asset Value Per Share:			
At 10% Net Present Value	$ 0.85	$ 1.40	-39%
OPERATIONS:			
Oil Production (bopd)	1,069	1,092	-2%
Average Selling Price ($/bbl)	$ 24.29	$ 30.59	-21%
Netback ($/bbl)	$ 12.16	$ 17.08	-29%
Reserves – Oil (mbbl)			
Proven	2,179	3,152	-31%
Probable (50% Risked)	3,045	6,453	-53%
Total	5,224	9,605	-46%
Net Present Value (10%)	$ 38,748	$ 55,088	-30%

CONTENTS

Access to new capital and additional international management expertise resulting from the proposed business combination with Rally Energy Corp. will benefit all Scimitar shareholders.

OVERVIEW

Two thousand and one was a challenging year for Scimitar. On the positive side, significant progress was made towards enhancing the asset portfolio by way of a declaration of project commerciality in Egypt and the addition of a discovered reserve opportunity in Pakistan. On the negative side, the public market performance has been a disappointment to our shareholders. The Board of Directors have determined that it is appropriate to consider a new approach towards maximizing shareholder value and believe that access to new capital and additional international management expertise resulting from the proposed business combination with Rally Energy Corp. will benefit all Scimitar shareholders.

EGYPT

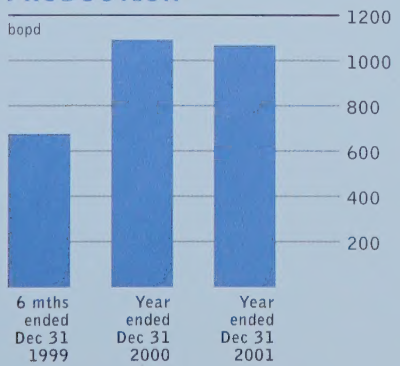
Scimitar focused its efforts on completing the work obligations of the Issaran Heavy Oil Project as required under the terms of the Petroleum Service Agreement (PSA) with The General Petroleum Co. S.A.E. (GPC). This involved substantial investments in steam piloting and a 3D seismic survey. The outcome of this effort was a successful steam pilot program and fulfillment of the work obligations, which allowed Scimitar to declare the project commercial in October, thus securing development and production rights over a large accumulation of heavy oil. The acceptance of commerciality by GPC was the most significant event in the 3 year history of the Project as Scimitar moves from the 3 year "Piloting" phase to the 20 year "Commercial Development" phase of the PSA. Since the 1999 inception of this project, cumulative revenues of $22 million supplemented with new equity, have resulted in the expenditure of over $25 million, primarily on capital expenditures. With the advent of a longer investment horizon, the focus will be to fully develop the potential of the Issaran Project.

Production averaged 1,069 bopd for 2001 down slightly from 1,092 for 2000 and, although year-end 2001 production was slightly higher than year-end 2000 production, revenues were down significantly due to lower oil prices. Production has continued to decline into 2002 as a result of natural reservoir decline, which has not yet been offset by workovers or development drilling. Scimitar responded to the reduction in fourth quarter 2001 revenue by deferring the drilling of two wells. The activities planned for 2002 focus on a multi-well drilling program in the second half of the year that will boost production.

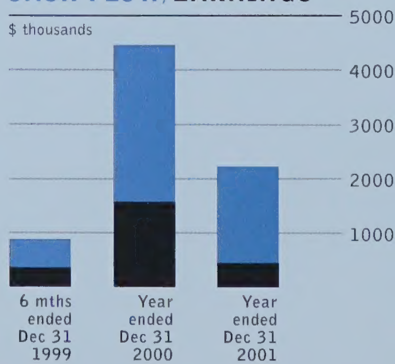
PAKISTAN

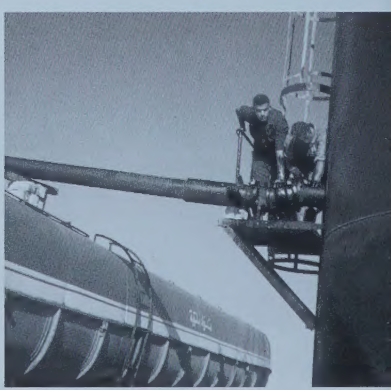
In Pakistan, Scimitar made an application in June for an Exploration Licence which covers 1,213 square kilometers and contains two tested gas/condensate wells. The Safed Koh block is located close to infrastructure and markets plus attractive exploration acreage to be

PRODUCTION



CASH FLOW/EARNINGS





tendered for competitive bidding. Scimitar, with an 80% interest in this project, submitted the successful bid for this area in October and signed a Concession Agreement in mid January 2002. In 2002, existing well data will be analyzed in conjunction with geological and geophysical studies, in order to evaluate the prospects on the Safed Koh Block.

FINANCIAL SUMMARY

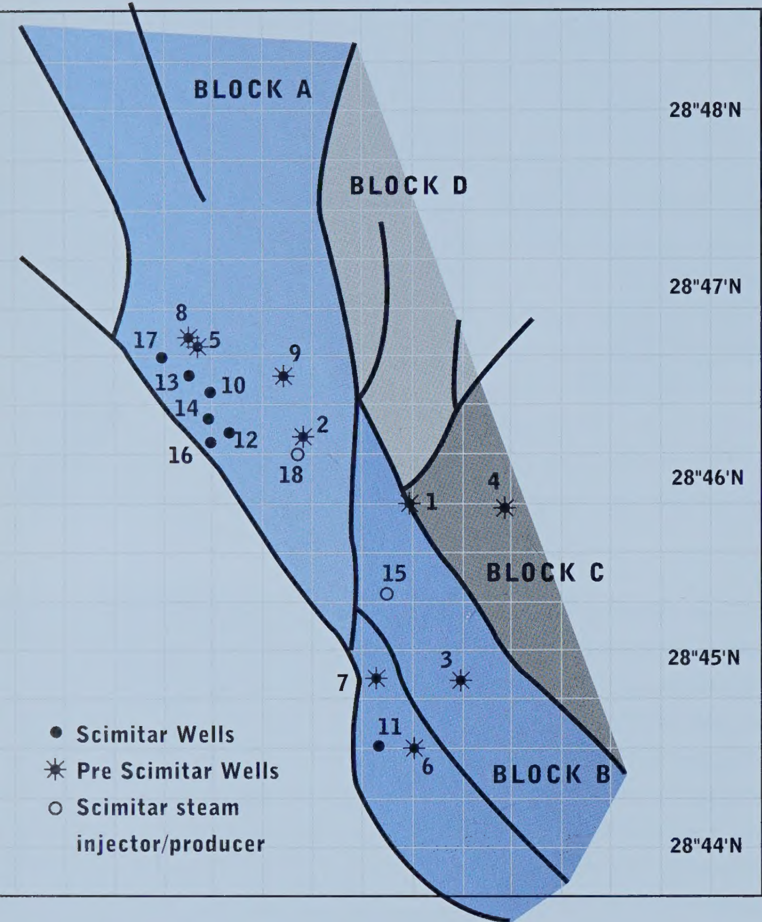
Scimitar recorded net income of $450,000 ($0.01/share) and cash flow of $2.2 million ($0.05/share) based on gross revenue of $9.5 million. The 2001 results were lower than those posted in 2000 primarily due to the 21% reduction in commodity price, a higher depletion rate and increased operating costs.

In order to supplement funding for Issaran capital expenditures, Scimitar completed a private placement of 3,500,000 shares at $0.35/share in August 2001, thereby raising $1.2 million. An additional $1.5 million was raised during the first quarter 2002, by way of a $900,000 loan agreement, to secure a bank guarantee for the two year work program in Pakistan, and $550,000 through convertible debentures to supplement working capital.

RALLY ENERGY CORP.

In order to provide the necessary development funds for the projects in Egypt and Pakistan, the Board reviewed a variety of alternatives, including debt financing, joint ventures and various strategic alliances. On May 8, 2002, Scimitar announced its intention to merge with Rally Energy Corp. This business combination will provide Scimitar with necessary project funding along with international management expertise. Along with development of the Issaran Project, Scimitar shareholders will also benefit from the exploration potential of Rally's resource properties in Prince Edward Island, Canada. The increased diversification offered by product stream (oil, natural gas) and geography (Canada, Egypt and Pakistan) will allow more opportunity for management to ensure asset growth.

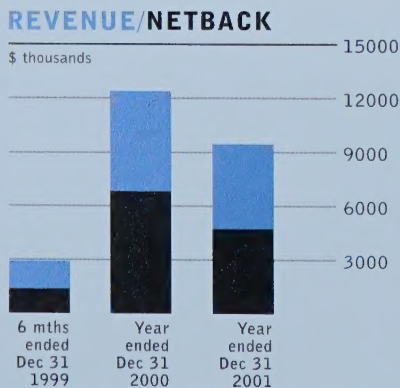
Angus A. Mackenzie
President and Chief Executive Officer



Issaran Project, Egypt: Scimitar has the exclusive rights to develop the Issaran oil field located onshore along the Gulf of Suez, Egypt and is rewarded for increasing production from the field through a fee expressed as a percentage of the incremental oil production. For 2002, Scimitar earned 80% of the Issaran production, an increase from 75% in 2001. Under the PSA, the fee paid to Scimitar on incremental production additions, net of royalty and taxes, ranges from 85% for production levels under 3,150 bopd to 33.5% when production exceeds 25,000 bopd and all eligible investment costs have been recovered. Scimitar's Issaran oil, which is owned by the concession holder, GPC, is sold to the Egyptian General Petroleum Company (EGPC) where it is blended with light crudes from nearby fields and exported as the Ras Gharib Blend. GPC pays Scimitar for its percentage share of production based upon a pricing formula agreed to with EGPC; Scimitar also has the option to purchase the crude at the same price.

The PSA, which came into effect on November 4th, 1998, carried the obligation of a 3 year appraisal and piloting program, consisting of drilling, seismic, production technology transfer and thermal stimulation testing. These requirements were successfully completed by October 2001 and resulted in the "Declaration of Commerciality" that has earned Scimitar the rights to a 20 year development and production period (with provisions for two 5 year extensions by mutual agreement of both parties). As a follow up to the declaration, Scimitar submitted an in depth Development Plan to the GPC in February 2002 detailing the growth objectives for the Issaran Project over the next twenty years.

Drilling: Three wells were drilled in 2001. Issaran-16 and Issaran-17 continued to focus on appraisal of the conventional primary production capability of the Nukhul/Gharandal reservoirs from which initial production rates of 350 BOPD were achieved. The third well, Issaran-18 was a Dolomite injector/producer well drilled specifically for steam piloting. This takes the number of successful wells drilled in the field by Scimitar to eight. The initial plan to drill 5 wells during



2001 was modified late in the year in response to the sudden drop in oil prices and challenging fund raising environment following the September 11th terrorist attacks in the United States. The two un-drilled wells will be included in the development program which is expected to commence during the second half of 2002.

Production: Oil production averaged 1,069 bopd in 2001 compared with 1,093 bopd for the previous year. Production rates increased from 856 bopd in January 2001 to 1,412 bopd in March 2001, declining thereafter to 984 bopd for December 2001. For the six months ending June 30, 2001, production averaged 1,089 bopd up 12% from 970 bopd for the six months ended June 30, 2000, while production for the six months ended December 31, 2001 averaged 1,048 bopd down 14% from 1,213 bopd for the corresponding 2000 period. Production for the first quarter of 2002 has declined to 861 bopd.

The lower production was due to normal reservoir decline and the fact that flush production from the fracture systems has now been replaced by matrix production.

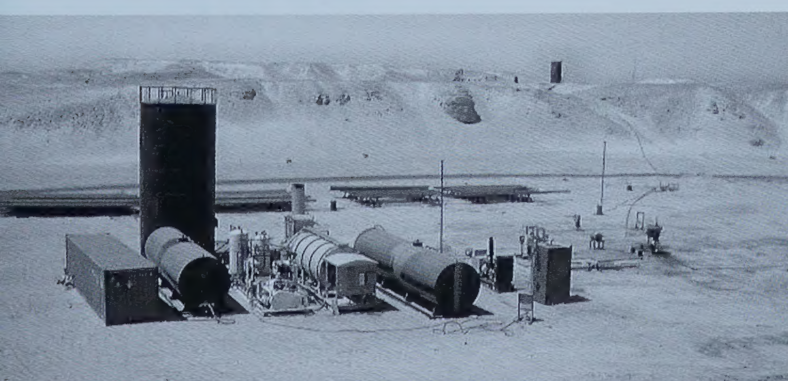
During 2001, Scimitar has continued to improve field operation efficiencies and the measurement of crude oil volumes relative to water cut determination.

Thermal Enhanced Recovery: The use of thermal enhanced recovery methods was an important obligation under the PSA and is the key to determining the recoverability factor of the vast potential of the field. One of the project risks to be tested by the pilot program was whether Issaran's carbonate reservoirs would respond in the same way to steam stimulation as Canadian sandstone reservoirs do.

Studies conducted by Sproule International and Inline Petroleum Management of Calgary, identified the locations and prepared programs for steam injection piloting in both the Dolomite and Nukhul reservoirs. In mid 2001, a 20 mmbtu/hr pilot steam generator was shipped from Alberta to Egypt and used to conduct tests on Issaran-18 (Dolomite) and Issaran-10 (Nukhul).

The tests on Issaran-18 showed a high steam injectivity rate of 120 cubic meters per day (cold water equivalent) as well as increased production in an offset well indicating good communication. However, post injection production from Issaran-18 was disappointing in light of the encouraging injection rates. The cause of the low productivity at Issaran-18 is believed to be due to formation damage caused by loss of cement in the reservoir, which had total losses of returns whilst cementing and a poor cement bond – further testing of the reservoir is planned using a barefoot completion to minimize formation damage.

The test on Issaran-10 showed a classic cyclic stimulation response with high steam injectivity of 100 cubic meters per day followed by production enhancement of over 300% from a base level of 70 bopd to 260 bopd. This achievement was a milestone for both Scimitar and for Egypt, as we believe it to be the world's first commercial success of cyclic steam stimulation of a fractured carbonate reservoir.



This discussion and analysis of the financial condition and results of operations should be read in conjunction with the consolidated financial statements contained in this report.

FINANCIAL SUMMARY	2001			2000		
PRODUCTION:			**bopd**			**bopd**
Gross Barrels	390,088		**1,069**	399,660		**1,092**
GPC Portion	(76,197)			(98,638)		
Net Barrels	313,891		**80%**	301,022		**75%**
REVENUE:			**$/bbl**			**$/bbl**
Gross Revenue	$ 9,474,582	**$**	**24.29**	$ 12,226,077	**$**	**30.59**
Less: GPC Production Fee	(1,853,115)	**$**	**(4.75)**	(2,912,091)	**$**	**(7.29)**
Net Revenue	7,621,467	**$**	**19.54**	9,313,986	**$**	**23.30**
Operating Expenses	2,877,102	**$**	**7.38**	2,487,879	**$**	**6.22**
PRODUCTION NETBACK	4,744,365	**$**	**12.16**	6,826,107	**$**	**17.08**
G & A Expenses	2,543,441	**$**	**6.52**	2,435,431	**$**	**6.09**
Depletion & Depreciation	2,091,390	**$**	**5.36**	1,451,788	**$**	**3.63**
EARNINGS FROM OPERATIONS	109,534	**$**	**0.28**	2,938,888	**$**	**7.36**
Other Income (Expense):						
Gain on property sale (writedown)	308,805			(1,440,097)		
Foreign exchange gain & Interest	31,755		**$/share**	76,741		**$/share**
NET INCOME	$ 450,094	**$**	**0.01**	$ 1,575,532	**$**	**0.04**
CASH FLOW GENERATED	$ 2,232,679	**$**	**0.05**	$ 4,467,417	**$**	**0.11**

CASH FLOW FROM OPERATIONS AND NET EARNINGS

Cash flow was $2.2 million ($0.05/share) for 2001 as compared to $4.5 million ($0.11/share) for 2000. The reduced oil price during the fourth quarter 2001 lead to a cash flow deficiency of $134,000, down from cash flow of $155,000 for the 2000 fourth quarter. Net earnings for the year were $450,000 ($0.01/share) and $1.6 million (($0.04/share) in 2000. A net loss of $1.1 million was incurred during the fourth quarter 2001, primarily as a result of increased depletion charges. For the fourth quarter 2000, the net loss was $269,000.

REVENUES

Oil production for 2001 averaged 1,069 bopd, off 2% from 1,093 bopd for 2000. Gross revenue from oil sales for 2001 was $9.5 million ($24.29/bbl) a reduction of 23% from $12.2 million ($30.59/bbl) for 2000. The lower prices in 2001 are attributable to lower world oil prices and a revised pricing schedule which came into effect coincident with the declaration of commerciality and commencement of the 20 year Commercial Development Period on October 18, 2001. Under the current pricing formula, Scimitar receives 75% of the blended oil price, known as the Ras Gharib blend, with increments of an additional 2.5% for every 500 bopd added, to a maximum of 90% when production from the Issaran field reaches in excess of 3,950 bopd. The wellhead price received for the first quarter 2002 has averaged $19.56/bbl, an 18% increase from the fourth quarter 2001 average of $16.53/bbl.

PRODUCTION FEES

The share of revenues kept by the GPC is 15% of production from wells drilled by Scimitar and 36% of production from wells existing at the commencement of

the PSA. During 2001, the average rate was 20%, down from 25% in 2000, as a result of production declines from the pre-Scimitar wells and an adjustment booked in 2000. The GPC share of production fees represented $1.9 million ($4.75/bbl) for 2001 as compared to $2.9 million ($7.29/bbl) in 2000, primarily due to the lower average crude oil price received.

OPERATING EXPENSES

Operating expenses for 2001 increased to $2.9 million ($7.38/bbl) from $2.5 million (6.22/bbl) in 2000 as a result of higher processing and treating costs along with costs associated with the thermal recovery project during the last half of 2001. For the fourth quarter 2001, operating expenses increased by 4% to $660,000 ($6.88/bbl) from $632,000 ($6.74/bbl) for the corresponding 2000 quarter, despite the 2% reduction in oil production.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses increased 4% to $2.5 million ($6.52/bbl) for 2001 from $2.4 million ($6.09/bbl) for 2000, primarily as a result of unusual items related to the unsuccessful sale of a subsidiary, litigation costs and additional personnel. For the fourth quarter, general and administrative expenses were $793,000 ($8.26/bbl) for 2001 as compared to $989,000 ($10.54/bbl) for 2000.

DEPLETION AND DEPRECIATION

Depletion is calculated on a per unit of production method based upon proved reserves. Due to revisions in proved reserves during 2001, depletion and depreciation charges increased to $2.1 million ($5.36/bbl) for 2001 from $1.5 million ($3.63/bbl) for 2000.

INCOME TAXES

Advances to subsidiaries totaled $24 million at December 31, 2001, which are expected to be repaid to Scimitar with minimal Canadian taxes. Additionally, the Corporation has $2.3 million of tax pools and operating losses available for carry forward at December 31, 2001.

CAPITAL EXPENDITURES

Net capital expenditures for 2001 of $5.5 million relate to the Egyptian project and complete the required work commitments for the piloting period of the PSA. This represented an 8% increase from the 2000 capital expenditures of $5.1 million. During the 2001 fourth quarter, $1.5 million was spent on the 3D seismic program and continuation of steam injection activity. During 2001, Scimitar sold its remaining non-core Canadian oil and gas interests realizing a gain of $308,805. Based on total reserves assessed at, and cumulative production to December 31, 2001, Scimitar's finding and development cost for the Issaran field is $1.71/bbl.

For the years ended 2001 and 2000, the Corporation's ceiling test resulted in estimated future net revenues being in excess of the net book value recorded on the balance sheet and therefore, no ceiling test write-down was required. The average 2001 price of $24.98 was used for the 2001 calculation and the December 31, 2000 price of $21.11 was used for the prior year. If the year end price of $16.12 had been used for 2001, a ceiling test deficiency of approximately $4.4 million existed.

LIQUIDITY AND CAPITALIZATION

At December 31, 2001, Scimitar had a cash position of $223,000 and working capital deficiency of $1.2 million, as compared to cash of $819,000 and working capital of $884,000 at December 31, 2000. Scimitar raised $1.2 million in August 2001 by issuing 3,500,000 shares at $0.35 per share under the terms of a private placement. The Corporation had no debt at December 31, 2001. Scimitar's market capitalization was $9 million at December 31, 2001, as compared to $22 million at December 31, 2000. During 2001, the trading range of the Corporations' shares was between $0.75 and $0.20, ending the year at $0.20.

RESERVES

Outtrim Szabo Associates Ltd. independently evaluated Scimitar's oil reserves effective December 31, 2001, as summarized below. The total reserves assigned to the three wells drilled and completed in 2001 exceeded the 2001 production by 63%. Production declines exhibited during 2001, due to normal reservoir performance, a lower estimate of primary recoverability in the probable additional category (from 18% to 10%) and the replacement of flush production from the fracture systems by matrix production, led to an 8 million barrel downward revision (primarily in the Probable reserves

category) from previous reserve estimates. During the latter half of 2001, the Corporation's focus was on completing the necessary work commitments to achieve the Commerciality Declaration. No reserves have been assigned as a result of the thermal pilot project.

RESERVE RECONCILIATION

(mbbls)	Proven	Probable	Total
Balance, December 31, 2000	3,152	12,906	16,058
Additions	193	444	637
Production	(390)		(390)
Revisions	(776)	(7,260)	(8,036)
Balance, December 31, 2001	2,179	6,090	8,269

NET ASSET VALUE

Based on the Reserve values assessed and working capital position, the Net Asset Value of the Corporation is:

	2001		2000	
	10% NPV	15% NPV	10% NPV	15% NPV
	$ thousands except per share amounts			
Proved Reserves:				
Developed	$ 6,292	$ 6,034	$ 12,945	$ 12,327
Undeveloped	11,656	10,509	12,291	11,110
Total Proved Reserves	17,948	16,543	25,236	23,437
Probable Additional	41,599	35,438	59,703	48,530
Total Reserves:				
Before Risk	$ 59,547	$ 51,981	$ 84,939	$ 71,967
After Risk *	$ 38,748	$ 34,263	$ 55,088	$ 47,702
Year End Balances:				
Working Capital (Deficiency)	$ (1,244)	$ (1,244)	$ 884	$ 884
Shares outstanding	44,164,848		39,964,848	
Net Asset Value/Share:				
On Proved Reserves	$ 0.38	$ 0.35	$ 0.65	$ 0.61
On Total Reserves *	$ 0.85	$ 0.75	$ 1.40	$ 1.22

* Probable reserves reduced by 50% to account for risk.

BUSINESS RISKS

Scimitar is in the business of exploring for, developing and producing oil and natural gas on a worldwide basis. The risks include finding oil and natural gas reserves on an economic basis, production risk once reserves are found and placed on stream, financial risk of commodity pricing and regulatory risk with respect to the political regimes. Although these risks are not always within its' control, the Corporation attempts to mitigate the risks in the following ways:

- focus on exploitation of existing reservoirs, supplemented with low risk exploration;
- employ a technically strong management team motivated in accordance with maximizing shareholder value;
- develop solid, long term relationships within the jurisdictions it operates;
- emphasize a strong balance sheet, with a conservative approach to debt;
- monitor cash flow closely and ensure capital expenditure flexibility;
- maintain adequate insurance coverage of drilling, operations, safety and the environment.

The heavy oil produced by Scimitar in Egypt is subject to a pricing differential in order to be blended with lighter oil for marketing. Additionally, oil commodity prices are subject to fluctuations due to a wide variety of factors most of which are beyond the control of the Corporation.

OUTLOOK FOR 2002

In Egypt, Scimitar plans to complete the 3D seismic program and commence a multi well development drilling program. Improvements and enhancements to facilities will be undertaken in order to improve operational efficiencies. Within the 20 year investment horizon of the "Commercial Declaration" period, increasing primary production will form the basis from which to commence secondary (thermal) recovery in an economic manner.

In Pakistan, Scimitar will proceed with a review of all existing geological, geophysical and well data, as required under the work program of the Concession Agreement.

The above opportunities require that Scimitar look for ways to secure the necessary financial resources. The Board has reviewed numerous alternatives and have chosen to recommend the proposed business combination with Rally Energy Corp. Shareholders of Scimitar will be asked to vote on this transaction at the upcoming Special and Annual General Meeting. A detailed Information Circular will be distributed to all shareholders for their review.

The Corporation does not currently have any other financial resources available for the above noted capital expenditure program, other than cash flow from the existing production of the Issaran field in Egypt.

Certain statements included herein may constitute "forward-looking statements" within the meaning of certain securities legislative measures. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Corporation, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such risks include, but are not limited to, those identified in the "Business Risks" section of this report.

MANAGEMENT'S REPORT

The preparation and presentation of the Corporation's consolidated financial statements is the responsibility of management. The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include estimates which are based on management's best judgment. Information contained elsewhere in the Annual Report is consistent, where applicable, with that contained in the financial statements.

Management is responsible for installing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded and to facilitate the preparation of relevant, reliable and timely financial information.

Independent auditors are appointed by the shareholders to perform an examination of the corporate and accounting records so as to express an opinion on the financial statements. Their examination includes a review and evaluation of the system of internal controls and includes such test and procedures, as they consider necessary, to provide reasonable assurance that the consolidated financial statements are fairly presented.

The Board of Directors is responsible for ensuring management's performance of its responsibilities for financial reporting and internal control. The Board exercises this responsibility with the assistance of the Audit Committee. The Audit Committee, consisting of non-management directors, meets with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the financial statements be presented to the Board of Directors for approval. The Board has approved the consolidated financial statements.

Angus A. Mackenzie
President and Chief Executive Officer

Douglas C. Urch, CMA
Chief Financial Officer

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SCIMITAR HYDROCARBONS CORPORATION

We have audited the consolidated balance sheets of Scimitar Hydrocarbons Corporation as at December 31, 2001 and 2000 and the consolidated statements of earnings and deficit and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta

April 15, 2002
(except for note 11(b),
which is as at April 19, 2002)

CONSOLIDATED BALANCE SHEETS

As at December 31, 2001 and 2000

(expressed in Canadian dollars)	2001 $	2000 $
Assets		
Current assets		
Cash and cash equivalents	**223,222**	818,713
Accounts receivable	**751,576**	741,837
Inventory	**263,539**	257,666
Prepaids	**80,920**	46,246
	1,319,257	1,864,462
Capital assets (note 3)	**11,594,203**	7,630,423
	12,913,460	9,494,885
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	**2,563,256**	980,586
Shareholders' Equity		
Capital stock (note 4)	**28,887,429**	27,501,618
Deficit	**(18,537,225)**	(18,987,319)
	10,350,204	8,514,299
	12,913,460	9,494,885

Contingency and commitments (notes 3 and 9)

Approved by the Board of Directors

Angus A. Mackenzie
Director and Chairman of the Board

James S. Palmer, C.M., Q.C.
Director and Chairman of the Audit Committee

CORPORATION CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT

For the years ended December 31, 2001 and 2000

(expressed in Canadian dollars)	2001 $	2000 $
Revenues		
Sales of crude oil	**9,474,582**	12,226,077
Production fees	**(1,853,115)**	(2,912,091)
	7,621,467	9,313,986
Expenses		
Operating	**2,877,102**	2,487,879
General and administrative	**2,543,441**	2,435,431
Depletion and depreciation	**2,091,390**	1,451,788
Write-down of petroleum and natural gas properties (note 3)	**–**	1,440,097
	7,511,933	7,815,195
Net earnings from operations	**109,534**	1,498,791
Interest income	**532**	443
Gain on property disposition (note 3)	**308,805**	–
Foreign exchange gain	**31,223**	76,298
Net earnings	**450,094**	1,575,532
Deficit – Beginning of year	**(18,987,319)**	(21,183,848)
Effect of change in accounting policy (note 2)	**–**	620,997
Deficit – End of year	**(18,537,225)**	(18,987,319)
Earnings per share – Basic and diluted	**0.01**	0.04

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001 and 2000

(expressed in Canadian dollars)	**2001** **$**	2000 $
Cash provided by (used in)		
Operating activities		
Net earnings	**450,094**	1,575,532
Write-down of petroleum and natural gas properties	**–**	1,440,097
Depletion and depreciation	**2,091,390**	1,451,788
Gain on asset sale	**(308,805)**	–
	2,232,679	4,467,417
Changes in non-cash working capital items		
(Increase) decrease in accounts receivable	**(9,739)**	224,725
Increase in inventory	**(5,873)**	(257,666)
Increase in prepaids	**(34,674)**	(12,487)
Increase in accounts payable	**875,881**	111,553
	3,058,274	4,533,542
Investing activities		
Additions to capital assets	**(5,838,170)**	(5,322,159)
Disposition proceeds, net	**308,805**	214,000
Change in non-cash working capital items	**706,789**	79,386
	(4,822,576)	(5,028,773)
Financing activity		
Issuance of common shares – net of share issue costs (note 4)	**1,168,811**	363,021
Decrease in cash and cash equivalents	**(595,491)**	(132,210)
Cash and cash equivalents – Beginning of year	**818,713**	950,923
Cash and cash equivalents – End of year	**223,222**	818,713
Cash flow per share – Basic and diluted	**0.05**	0.11
Supplemental information		
Cash interest received	**12,887**	15,167

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation and going concern assumption

These consolidated financial statements include the accounts of the corporation and those of its wholly owned subsidiaries and are expressed in Canadian dollars.

The consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The corporation had a working capital deficiency of $1,243,999 at December 31, 2001.

The corporation's ability to continue as a going concern is dependent upon it generating sufficient cash flow from operations or raising additional financing (see note 11). If the corporation is unable to continue as a going concern, the net carrying value of its assets may be materially less than the carrying amount stated in the balance sheet and its liabilities extinguished at values different than those stated in the balance sheet.

b) Measurement uncertainty

Amounts recorded for depletion and depreciation and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves and future costs required to develop those reserves. By their nature, these estimates of reserves and the related future cash flows are subject to measurement uncertainty, and the impact on the financial statements could be material.

c) Revenue recognition

Revenue is recognized upon delivery and acceptance of oil and is based upon an agreed upon formula with The General Petroleum Co. S.A.E. for the number of barrels produced by the corporation and delivered to The General Petroleum Co. S.A.E.

d) Capital assets

The corporation follows the full cost method of accounting whereby all costs related to the exploration for, and the development of, crude oil and natural gas reserves are capitalized on a country-by-country cost centre basis. Costs accumulated within each cost centre are depleted and depreciated using the unit of production method, based on estimated proved reserves, with net production and reserves volumes of natural gas converted to equivalent energy units of crude oil. Proceeds from disposal of properties are normally deducted from the full cost pool without recognition of gain or loss.

Costs of exploration in new cost centres, together with related land costs, are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties, or if impairment has occurred.

A ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proven reserves plus the unimpaired cost of unproved properties less estimated development costs, related production, interest and general administration costs, estimated site restoration costs, and applicable taxes. The calculations are based on sales prices and costs at the end of the year.

Depreciation of furniture and equipment is calculated using the declining balance method over the estimated useful lives at rates from 20% to 40%.

e) Inventory

Inventory is valued at the lower of cost or estimated net realizable value.

f) Joint interest operations

Certain of the corporation's exploration and production activities are conducted jointly with others, and accordingly, the consolidated financial statements reflect only the corporation's proportionate interest in such activities.

g) Foreign currency translation

Monetary assets and liabilities are translated at the rates of exchange at the balance sheet dates. Non monetary assets and liabilities are translated at the rates in effect at the dates the assets or liabilities were acquired. Revenues and expenses are translated at the average rates of exchange during the month in which they are recognized. The resulting gains or losses are included in earnings, except that foreign exchange gains or losses arising on translation of long-term monetary assets and liabilities are deferred and amortized over their remaining term.

h) Stock-based compensation plan

The corporation has one stock-based compensation plan, which is described in note 4. No compensation expense is recognized for this plan when stock options are issued to directors, officers and employees. Any consideration paid on exercise of stock options is credited to share capital.

i) Cash and cash equivalents

Cash and cash equivalents include short-term investments with a maturity of three months or less when purchased.

j) Reclassifications

Certain information provided in prior years has been reclassified to conform with the current year presentation.

2 CHANGE IN ACCOUNTING POLICY

In 2001, the corporation adopted retroactively the new recommendations on earnings per share, that require the use of the treasury stock method to determine the dilutive effect of warrants, options and equivalents. Previously, the corporation used the imputed earnings approach.

This change in accounting policy had no effect on basic and diluted earnings per share for the years ended December 31, 2001 and 2000.

Effective January 1, 2000 the corporation adopted the liability method of accounting for the income taxes as recommended by the Canadian Institute of Chartered Accountants (CICA). Under the liability method, the corporation will record future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability. The corporation has retroactively adopted the CICA recommendations, without restating prior years, by recording additional capital assets of $620,997, an increase in retained earnings of $620,997 and no change of the future tax liability as at January 1, 2000. The adoption of the new accounting standard for accounting for income taxes resulted in no change in net earnings in 2000.

3 CAPITAL ASSETS

	2001 **$**	2000 $
Petroleum and natural gas properties		
Egypt	**14,696,745**	9,013,431
Furniture and equipment	**1,287,783**	915,927
Less: Accumulated depletion and depreciation – Petroleum and natural gas properties	**(4,025,444)**	(2,102,518)
Accumulated depreciation – Furniture and equipment	**(364,881)**	(196,417)
	11,594,203	7,630,423

Under the terms of the Petroleum Service Agreement governing the development of the Issaran field in Egypt, capital assets and those moveable assets used in the performance of the agreement and charged to the field's operations, become the property of The General Petroleum Co. S.A.E. when purchased. The General Petroleum Co. S.A.E. assumes all liability for future site restoration costs.

During the year ended December 31, 2001, the corporation capitalized $nil (2000 – $nil) of international administrative and general corporate overhead costs related to the exploration for petroleum and natural gas properties.

During the year ended December 31, 2001, the corporation disposed of its Canadian petroleum and natural gas properties for gross proceeds of $308,805 and an overriding royalty of 2% (2000 – $250,000). At December 31, 2000, the corporation had written down the value of its petroleum and natural gas properties in Canada to $nil.

Based on December 31, 2001 crude oil prices of US$10.12, a ceiling test deficiency of approximately $4,400,000 existed at the balance sheet date. Using average crude oil prices of US$15.68 for the year ended December 31, 2001, there is no such deficiency and accordingly, no write-down of petroleum and natural gas properties has been recorded.

CAPITAL STOCK

a) Authorized

Unlimited number of common shares

50,000,000 non-voting preferred shares

b) Issued

	Number of Shares	Amount $
Balance – December 31, 1999	**38,878,148**	**27,138,597**
Issued on exercise of options	1,086,700	341,175
Share issue costs refunded	–	21,846
Balance – December 31, 2000	**39,964,848**	**27,501,618**
Issued through private placement (see note 8(i))	700,000	217,000
Issued through private placement for cash (see note 8(ii))	3,500,000	1,225,000
Share issue costs	–	(56,189)
Balance – December 31, 2001	**44,164,848**	**28,887,429**

c) Stock-based compensation plan

At December 31, 2001, the corporation had one stock-based compensation plan which is described below.

Under the Employee Stock Plan, the corporation may grant options to its directors, officers and employees for up to 10% of the corporation's issued and outstanding shares. Under the plan, the exercise price of each option is equal to or greater than the price of the corporation's stock on the date of the grant. Options vest over 3 years and expire after 5 years.

A summary of the status of the corporation's plan at December 31, 2001 and 2000 and changes during the year then ended is presented below:

Continuity of stock options

	2001		2000	
	Share options (000's)	**Weighted-average exercise price ($/share)**	Share options (000's)	Weighted-average exercise price ($/share)
Outstanding at beginning of year	**2,343**	**0.52**	2,425	0.28
Granted	**1,435**	**0.40**	1,160	0.80
Exercised	**–**	**–**	(1,087)	0.31
Forfeited	**(760)**	**0.40**	(155)	0.27
Outstanding at end of year	**3,018**	**0.37**	2,343	0.52
Options exercisable at year end	**1,928**	**0.34**	1,162	0.43

The following table summarizes information about the stock options outstanding at December 31, 2001:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding (000's)	Weighted-average remaining contractural life (years)	Weighted-average exercise price ($/share)	Number exercisable (000's)	Weighted-average exercise price ($/share)
$0.25	1,183	2.64	0.25	1,183	0.25
$0.40	1,435	3.54	0.40	478	0.40
$0.60	400	4.25	0.60	267	0.60
	3,018	3.53	0.37	1,928	0.34

d) Earnings per share

The earnings per share was calculated using the weighted average number of shares of 41,823,204 (2000 – 39,632,986) outstanding during the year.

5 INCOME TAXES

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rates to income before income taxes. The difference relates to the following items:

	2001	2000
	$	$
Income before income taxes	**450,094**	1,575,532
Corporate tax rate	**43.1%**	44.6%
Expected income tax expense	**193,991**	702,687
Foreign tax rate differential	**(360,675)**	(1,505,238)
Resource allowance	**49,548**	48,078
Unrecognized benefit of losses	**117,136**	754,473
	–	–

At December 31, 2001, the corporation had Canadian net operating losses carried forward for income tax purposes and unused Canadian tax pool balances of approximately $2,300,000 (2000 – $2,100,000). None of the related tax benefits have been reflected in these financial statements. Had the corporation been able to reflect these losses and tax pools in the financial statements, a future tax asset of approximately $960,000 (2000 – $930,000) would have been recorded. These losses are available to reduce future taxable income but, if not claimed, will expire as follows:

	$
2002	212,750
2003	134,502
2004	131,387
2005	646,745
2006	177,099
2007	149,792
2008	339,491
	1,791,766

Under the terms of the Petroleum Service Agreement with The General Petroleum Co. S.A.E., the fee received on the incremental production is not subject to income tax.

6 FINANCIAL INSTRUMENTS

Fair values of financial assets and liabilities

The corporation's financial instruments recognized in the balance sheet consist of cash and short-term deposits, accounts receivable and accounts payable and accrued liabilities. The fair values of the financial instruments recognized in the balance sheet approximate their carrying amounts due to the short-term maturity of these instruments.

Credit risk

The corporation is exposed to credit risk from financial instruments to the extent of non-performance by third parties. A substantial portion of the corporation's accounts receivable are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal credit risks.

7 TRANSACTIONS WITH MAJOR CUSTOMERS

Substantially all of the corporation's revenue for the year has been derived from The General Petroleum Co. S.A.E.

8 RELATED PARTY TRANSACTIONS

i) The shares issued under the private placement were issued to a company of which a director of Scimitar is a shareholder and director. The shares were issued at a price of $0.31 per share, which reflects the market price at the date of issue. The shares were issued in return for a termination of the company's right to farm-in on the Issaran Oilfield in Egypt.

ii) The shares issued under the private placement for cash were issued to two companies owned by directors of Scimitar and two directors of Scimitar at a price of $0.35 per share, which reflects the market price at the date of issue. The shares issued through this private placement are subject to a one year hold period.

See also notes 9 and 11.

9 CONTINGENCY AND COMMITMENTS

The corporation entered into a Petroleum Service Agreement (PSA) with The General Petroleum Co. S.A.E. (GPC) effective November 4, 1998, pursuant to which the corporation is granted the exclusive right to develop and produce heavy oil from the Issaran, Egypt oilfield. On October 18, 2001, the corporation entered the 20 year Commercial Development Period of the PSA, after having successfully satisfied the terms of the three year Piloting Period. The corporation has the option to extend the Commercial Development Period for up to two additional five year terms subject to concurrence with the GPC. The Commercial Development Period does not require any specific capital expenditure commitments.

On November 10, 2001, an Exploration License over the Safed Koh Block in Pakistan was awarded to Scimitar Hydrocarbons Pakistan Ltd. ("SHPL"), a wholly owned subsidiary of the corporation, and MESA Petroleum (Private) Limited, a Pakistani company of which a director is a shareholder, as to an 80% and 20% interest, respectively. Pakistan Government policy required a minimum 20% local participation in the Exploration Licence. The corresponding Concession Agreement was finalized on January 18, 2002. SHPL has agreed to fund 100% (including MESA's share of such commitments) of the commitments for the two year evaluation period commencing January 18, 2002. The commitment during the evaluation period is to spend US $573,000 (CDN $918,201) to carry out certain activities, including a review of existing geological, geophysical and well data.

Correspondence was received in August 1999 from a former partner in Trifoil Petroleum Limited, a company created in 1997 to market petroleum by-products in Kenya, with respect to a potential claim of U.S. $281,000. The corporation has disposed of its interest in this project and believes it has effectively discharged all related obligations.

On November 13, 2001, the corporation was advised by the Alberta Securities Commission of a Notice of Hearing regarding allegations that certain news releases issued between November 1, 1999 and March 6, 2000 may have contained misrepresentations of the corporation's oil production volumes at that time. The corporation's analysis of the subject news releases is that any discrepancies were subsequently covered by later news releases and that the concerns raised will have no impact on the corporation's financial results presented during the referenced time frame or subsequently.

The corporation has been notified in respect of other matters of potential litigation associated with it's activities, none of which are currently expected to result in any material adverse consequence.

The corporation rents premises under operating leases, which expire in 2004.

The minimum repayments required under all the above noted commitments are as follows:

	Pakistan	**Canada**	**Total**
	$	$	$
2002	185,808	25,498	211,306
2003	732,393	25,498	757,891
2004	–	19,123	19,123

10 SEGMENTED INFORMATION

In 2001, the corporation's exploration and development activities were predominately in Egypt with all the corporation's production revenue and expenses relating solely to the corporation's operations in Egypt. Of the $2,543,441 (2000 – $2,435,431) of general and administrative expense incurred by the corporation, $1,728,233 (2000 – $2,013,858) related to the Egyptian operations, $6,527 (2000 – $nil) related to the corporation's other international operations with the remainder related to the Canadian corporate office.

11 SUBSEQUENT EVENTS

In February 2002, the corporation finalized two financial transactions for gross proceeds of $1,450,000. The majority of the funds were used to obtain a guarantee in respect of the work commitments contained in the recently awarded Pakistan Concession Agreement (see note 8), with the remaining funds used to supplement working capital in the Egyptian and Canadian offices.

a) The first transaction consisted of the issuance by the corporation of a Promissory Note to an arm's length lender for $900,000. The Note bears interest at 12%, is payable monthly, and matures on November 30, 2002. In the event that the corporation completes an offering of equity or debt prior to maturity of the Note, the net proceeds from the offering will be used to repay the Note. If not repaid on maturity, the Note can be converted at the holder's option into Common Shares at a price determined in relation to the prevailing market price. Under the terms of the loan agreement, the corporation has issued 1,080,000 Common Shares at $0.15 per Common Share to the lender as consideration for this transaction. The loan proceeds of $900,000 will remain on deposit with the Royal Bank of Canada as security for a US$553,000 bank guarantee issued to the Government of Pakistan. The bank guarantee is in respect of capital expenditures of US$100,000 and US$453,000 required in 2002 and 2003, respectively, by SHPL, pursuant to the Concession Agreement (see note 8). Pursuant to the terms of the Concession Agreement, the amount of the guarantee shall be reduced annually by the expenditure obligations discharged during the year. In order to obtain the $900,000 loan, the lender required that the loan be secured by a guarantee from a company owned by the president of the corporation and also that such company pledge as security certain publicly traded shares. Neither the president of the corporation nor his company received any compensation from the corporation for providing this security to the lender.

b) The second transaction consists of the subscription by certain directors and/or officers of the corporation, or companies related to them, for an aggregate $550,000 principal amount of Convertible Subordinated Debentures. The Debentures bear interest at 10%, are payable semi-annually, and mature on February 28, 2003, unless extended to February 28, 2004 at the option of the holders. At the option of the holders, the Debentures can be converted into Common Shares at any time prior to maturity at $0.17 per share.

BOARD OF DIRECTORS

Angus A. Mackenzie
Chairman of the Board
Montego Bay, Jamaica

James S. Palmer, C.M., Q.C.*
Calgary, Alberta, Canada

Muslim Lakhani
Islamabad, Pakistan

Theodor Hennig*
Calgary, Alberta, Canada

K. Andrew Gustajtis*
Toronto, Ontario, Canada

*Audit Committee Member

MANAGEMENT AND KEY STAFF

Angus A. Mackenzie
President and Chief Executive Officer, SHC and Chairman, SPEL

Muslim Lakhani
Executive Vice President and Chief Operating Officer, SHC and President, SPEL

Tim Hargreaves
Vice President Operations, SHC and Executive Vice President, SPEL

Doug Urch
Chief Financial Officer, SHC

Melita Dalgado
Office Manager/Investor Relations, SHC

Leonard Julien
Operations Manager, SPEL

Gary Tuchscherer
Techical Advisor, SPEL

Faheem Khan
Manager Finance and Administration, SPEL

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP
Calgary, Alberta, Canada

BANKERS

Royal Bank of Canada
Calgary, Alberta, Canada

HSBC Bank Egypt
Cairo, Egypt

AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta, Canada
Cairo, Egypt

STOCK EXCHANGE

TSX Venture Exchange
Trading Symbol: SIY

TRANSFER AGENT AND REGISTRAR

Valiant Trust Company
Calgary, Alberta, Canada

EVALUATION ENGINEERS

Outtrim Szabo Associates Ltd.
Calgary, Alberta, Canada

HEAD OFFICE

Scimitar Hydrocarbons Corporation (SHC)
Suite 1040 Canada Place
407 – 2nd Street S.W.
Calgary, Alberta
T2P 2Y3 Canada
Telephone: (403) 543-0333
Facsmile: (403) 543-0344
E-mail: info@scimitar.ab.ca
www.scimitar.ab.ca

EGYPT OFFICE

Scimitar Production Egypt Ltd. (SPEL)
Villa 1.11
Ismail Al Kabani Street
Nasr City, Cairo, Egypt
Telephone: (202) 402-7918
Facsimile: (202) 401-9848

PAKISTAN OFFICE

Scimitar Hydrocarbons Pakistan Ltd. (SHPL)
324, Hillside Road, E-7
Islamabad, Pakistan
Telephone: (9251) 282 6641/42
Facsimile: (9251) 227 7123

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SCIMITAR HYDROCARBONS CORPORATION

Suite 1040 Canada Place
407 – 2nd Street S.W.
Calgary, Alberta
T2P 2Y3 Canada